Essay on how is the cost principle applied to plant assets, acquisitions, includi...

[Engineering](), [Aviation]()

Accounting principle states that the costs of fixed assets like plants and real estate are supposed to be spread over a specified number of periods which will enable them to generate revenue. If for example buys a used plane of $20000, it is not wise to treat this acquisition as an expense since the expenditure itself is very huge and the plane would be useful for a number of years to come. Since the plane is will assist in generating more revenue, it will not qualify to be called current period expense (Jahawar, 2008).

Also, in long lived assets, like property, plant and equipment they form a very basic part of the company’s balance sheet. There major properties include-they are used for operations and not meant for sale; they posses physical substance and they are long term among many other features. Historical cost principle is normally used when valuing plant property and equipment and also lump sum acquisitions. The purchase price, sales taxes, installation costs, and freight costs are part of asset’s costs. The costs are than allocated in the future through depreciation. All related costs which are incurred after the acquisition of the asset like additions, replacements or improvements are totaled to the cost of the asset if only they provide an ability to be useful in future (Jahawar, 2008).

Cost principle is the basis of acquisition. This is because cash and cash equivalent can best measure the value of the asset that specific time. The cost of building a plant should have to include all the expenditures which are directly involved with the acquisition or construction. The costs can be labor, material and overhead costs which are incurred during plant construction, professional fees and more so building permits. More often than not companies, contract so that their buildings or plants can be constructed. All the costs which are incurred, from the excavation of the land to its completion will be considered the entire plant costs. The equipment to be used includes office equipment, furniture, furnishings and other acquisitions. The costs of acquiring these assets are added together with the freight cost, handling charges, special foundation costs and insurance costs on the equipment (Kinney et al, 2008).

References

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